

**Distribution Charging Methodology Forum Minutes**  
**Monday 26 October 2009**  
**Exelon, 350 Euston Road, London NW1 3AW**

**Attendees**

Tim Davis (Chair)	(TD) Joint Office
John Bradley (Secretary)	(JB) Joint Office
Anna Taylor	(AT) Northern Gas Networks
Bernard Kellas	(BK) Scottish and Southern Energy
Chris Smith	(CS) Centrica
Denis Aitchison	(DA) Scotia Gas Networks
Erika Melen	(EM) Energy Networks Association
Eddie Proffitt	(EP) Major Energy Users Council
Gareth Evans	(GE) WatersWye
Glenn Sheern	(GS) E.ON Energy
Ian Foster	(IF) Fulcrum
John Edwards	(JE) Wales & West Utilities
Jenny Higgins	(JH) RWE npower
Karron Baker	(KB) Ofgem
Paul Sherley	(PS) Centrica
Rob Hetherington	(RH) Scotia Gas Networks
Steve Armstrong	(SA) National Grid Distribution
Sarah Carter	(SC) GTC
Simon Lee	(SiL) GTC
Stephen Marland	(SMa) National Grid Distribution
Stephen Murray	(SMu) Fulcrum
Stefan Leedham	(StL) EDF Energy

**1. Introduction**

TD welcomed all to the meeting.

**1.1 Minutes of Previous Meeting**

The minutes of the previous meeting held on 27 July 2009 were accepted.

**1.2 Review of Actions**

**2. Action 0027: Ofgem (DG) to obtain and advise the rationale behind NTS Exit Capacity being charged to DNs but NTS Commodity to shippers.**

Ofgem will circulate its reply shortly

**Action Closed**

**Action 0028: DNs to consider and report when and how NTS Exit Capacity would be included in future 0186 reports.**

DA suggested that this would be included as a separate line from March 2010. At the next DCMF the implications of the NTS Exit Regime will be discussed.

**Action Closed**

**Action 0029: DNs to make presentation on the impact of the NTS Exit Regime on Distribution charges at the January 2010 DCMF.**

### **3. Topics for Discussion**

#### **3.1 Allowed and Collected DN Revenue (UNC 0186 Reports)**

##### **3.1.1. National Grid Distribution**

SM listed the SOQ reductions in each Network. He also highlighted the change in treatment with Business Rates (approximately £30m). Business Rates are likely to reduce and this will be reflected in charges. London is likely to trigger a re-opener under the Traffic Management Acts. He then proceeded to review each Network. Finally he showed the trend on SOQs.

##### **3.1.2. Scotia Gas Networks**

RH outlined the Scotland DN position, firstly identifying movements in cost pass-through due to pension costs and the Traffic Management Act. There were also reductions shown in shrinkage costs in later years. SOQ reductions were also highlighted. The position with Southern DN was similar. The October price reduction would reduce the April price level adjustment.

EP asked whether there was any consumer benefit from the Exit Capacity incentives consistent with the DN benefits in the figures presented. DA responded that, due to the incentives, there should be less investment in the NTS due to higher efficiency in the operation of the DNs and this would benefit customers in due course. EP suggested, however, that customers are currently paying more due to demand reduction and unchanged allowed revenue, but demand reduction meant the DNs were gaining on their incentives by booking less NTS capacity. SA did not disagree with this but responded that there are potential downsides on the incentives as well as upsides. KB stated that Ofgem would be carrying out a review of incentives in 2010 and would consider bringing a presentation to the next DCMF. SGN was unable to indicate when and how the current capex re-opener discussions with Ofgem would be concluded.

**Action 0030: Ofgem to consider making a presentation on incentives to the January 2010 DCMF.**

##### **3.1.3. Northern Gas Networks**

AT highlighted the October price change, which had assumed a 3% AQ movement. In fact the reduction was closer to 4%, which would lead to under-recovery. Other factors are also likely to lead to under-recovery. Inflation assumptions had also changed.

##### **3.1.4. Wales & West Utilities**

JE identified that inflation factors had changed and these were the major contributors to the changes in price level. He also outlined the changes seen in AQs.

#### **3.2 Pricing Consultation Update**

##### **3.2.1. DNPC05**

On behalf of all the DNs, SA gave this presentation, which was on the LDZ System and Customer Charge split. He identified previous consultation DNPC04, which was due for submission as a final proposal but this had been deferred due to a Competition Act referral on some electricity charges. Ofgem more recently identified that the consultation did not need to be further delayed due to this aspect. The DNs, however, had taken the opportunity of updating the cost data and responding to comments in the DNPC04 representations.

SA then outlined the responses to DNPC04, including support for network-specific splits. The DNs had also clarified the process for updating the split. There had also been comments on iGT implications.

The largest methodology change was in Mains and Services replacement costs for which the DNs proposed to seek to reflect assumed rather actual costs. This would give a basis more reflective of ongoing expenditure. Leakage costs had been identified and treated separately for the distribution system and the service pipe. Greater consistency of treatment was being proposed for emergency charges for iGTs and DN systems.

Costs were now based on 2007/8 and 2008/9 data instead of a single year's data used for DNPC04.

Most responses to DNPC04 favoured a five-yearly update of the split and the DNs were therefore suggesting that the analysis should only be updated in the first year of a Price Control period, for implementation in a later year. For the initial change, the DNs would be using a two-year average. In 2013, they might be averaging more than two years, but would wish to keep the precise approach open in order to make judgements about what was appropriate in light of the available evidence at the time.

The average change from current proportions would be 1.3%. The variation was from -2.4% in London to 4.0% in North Western. With the exception of London, domestic charges would reduce but I&C increase. The anticipated effect was smaller than under DNPC04. For CSEPs, there would be increases across the portfolio, apart from London, as there would be no customer charge element.

Implementation was proposed for 01 April 2010, which reflected five months notice. Indicative notices would be published by 02 November 2009 for both the current and proposed methodology.

GE asked whether customer charge structures would be reviewed. He linked this with the acceptability, or otherwise, of the split. SA responded that the DNs would like to review both LDZ System and Customer Charge structures probably in that order of priority. GE also expressed concern in the implementation date since any change needs to be reflected in customer contracts, and suggested instead October 2010 as the earliest implementation date. SA was willing to support this if the consensus was that this was appropriate, but pointed out that there is a licence condition that provides for changes being implemented only in April each year. GE finally highlighted the swings from 07/08 to 08/09 data, and asked about any analysis done of prior years in order to help identify anomalies or trends. SA responded that some of the data is in place for earlier years but this was less representative and less consistent. The DNs felt that use of a two-year average was valid. For National Grid DNs, there had been a change in assumption on asset life between 07/08 and 08/09, which impacted the cost split, but this had not been mirrored in the other DNs. DA stated that change in activity was the only reason for the change from 07/08 to 08/09. Whilst he

acknowledged the benefit of averaging over more than two years, there were currently only two years of reliable data.

At this point, several members of the forum acknowledged that this proposal would make improvements in cost reflectivity. However, due to the swings observed, other members were not convinced. AT identified that the proposal sought to balance stability and cost reflectivity. The alternative of annual changes might be more cost reflective but would be less stable.

SiL asked why the changes would be less under DNPC05 than DNPC04. SA referred to the methodology changes identified in the presentation. SA also clarified that whilst the term “LDZ System Charges” was used to be consistent with the UNC, these applied at the DN level.

### **3.3 Ofgem Consultation Update**

KB identified that responses are on Ofgem’s web site to the proposed changes in governance of charging methodology changes. Ofgem hoped to give a presentation on this at the next DCMF.

**Action 0031: Ofgem to make a presentation on governance of charging methodology changes to the January 2010 DCMF.**

### **4. Date of next meeting and agenda items**

TD confirmed that the next meeting is booked for Monday 25 January 2010 at the Energy Networks Association. This would include consideration of the DN charges for NTS Exit capacity consultation and an update on charging methodology governance.

### **5. Any Other Business**

SM identified that only one letter had been received in respect of impacts under Review Proposal 0264. The DNs would very much welcome and encourage all to provide information about potential take up rates and benefits from any solution.

AT gave a presentation on Topics. The DNs were proposing that a Topic Register should form part of the DCMF Agenda. This would facilitate industry participants raising issues for discussion without a fear of them being overlooked, and would provide an opportunity to establish priorities. Initially AT suggested the following topics:

1. LDZ System- Customer split
2. Shape of the LDZ System Charge functions
3. Shape of the Customer Charge functions
4. The Optional Tariff
5. NTS Exit Charges
6. Structure of Administration Charges

GE suggested having a topic on timing of charging changes. SiL suggested an impact of governance arrangements topic. SM suggested having a commodity charge removal topic. EP suggested having a calculator development topic. AT offered to investigate incorporation of improvements to clarity in the calculator.

There was a consensus that a topic register should be maintained by the Joint Office and the initial topics would be those highlighted in the discussions.

**Action 0032: Joint Office to institute a DCMF topic register.**

**Action Table**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner*</b>	<b>Status Update</b>
0027	27/07/09	2.2.2	Obtain and advise the rationale behind NTS Exit Capacity being charged to DNs but NTS Commodity to shippers	Ofgem (DG)	To be included in correspondence <b>Closed</b>
0028	27/07/09	2.2.2	Consider and report when and how NTS Exit Capacity would be included in future 0186 reports.	DNs	To be included as a specific item from March 2010 <b>Closed</b>
0029	26/10/09	2	Make presentation on the impact of the NTS Exit Regime on Distribution charges at the January 2010 DCMF.	DNs	
0030	26/10/09	3.1.2	Consider making a presentation on incentives to the January 2010 DCMF.	Ofgem	
0031	26/10/09	3.3	Make a presentation on governance of charging methodology changes to the January 2010 DCMF.	Ofgem	
0032	26/10/09	5	Institute a DCMF topic register	Joint Office	